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European rescue and recovery programmes against the Corona crisis

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Debattenbeiträge



IW-Policy Paper 8/2020

European Rescue and Recovery Programmes against the Corona Crisis

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JEL-Classification:

F02 - International Economic Order and Integration

H12 - Crisis Management

I15 - Health and Economic Development

Abstract

The current crisis is different from the situation 2008/2009, but again it is a tremendous challenge for the economies across Europe. The Corona-crisis is hitting the economies symmetrically, though with differences in magnitude levels, while the 2009 crisis was primarily a crisis of the banking industry and the manufacturing sector. This time, value chains are substantially affected. As the virus does not hit all countries at the same time, there will be distortions in the value chains over the next months.

The assessments on the impact on national GDPs range from a best-case scenario -5% for Germany to a worst-case scenario of -12% for Italy.

To deal with the impact of the crisis a European rescue programme is needed immediately, including bringing down infection rates and providing sufficient medical equipment and services. Regarding the economic support, the comprehensive efforts by the ECB and the Commission, including loosening the rules concerning state aid and the provision in the context of the SURE programme for short time work are very welcome.

In a second phase, Europe will need a common recovery programme fostering economic development and coming back to sustainable growth quickly. Europe must secure open borders for goods, services and labour, which are crucial for the maintenance of the single market and for restarting cross-European value chains. Europe needs a large-scale and timely initiative to foster growth through public and private investments, focusing on health, technology, and the green economy.

The Green Deal should play a key role for the design of the economic recovery programme. The 1.5 trillion euro plan foreseen by the Commission is appropriate to address the challenge faced by European economies. However, to avoid asymmetric rebounds within the EU after the emergency, the European recovery plan must be implemented soon and in a coordinated fashion.

Unilateral national actions such as intra-EU border closures should be avoided as they increase uncertainty, lower business confidence, and raise costs. As supply chains are closely knit between EU member states, a common strategy for exiting the crisis will be of paramount importance to re-establish normal economic relationships among European firms and maintain the international competitiveness of the European industry.

1 A European perspective on a European crisis

The coronavirus Crisis is a medical and an economic challenge requiring not only national, but also European answers. In this short report, the Economic Think Tank Exchange (ETTE), a network of economic think tanks from various European countries, proposes some key economic measures.

The current crisis differs from the situation 2008/2009 but is again a tremendous challenge for the economies in Europe. The coronavirus crisis is hitting the economies symmetrically, though with differences in magnitude levels, while the 2009 crisis was primarily one of the banking industry and the manufacturing sector. This time, value chains are substantially affected. As the virus does not hit all countries at the same time, there will be distortions in the value chains over the next months.

The true economic effect cannot be measured yet, but a set of scenarios exists for several countries. The positive scenario typically describes some kind of best-case development with a lockdown phase of several weeks and a relatively quick recovery in the months thereafter. The negative scenario is based on the assumption of a longer lockdown and a slow recovery. Worst-case scenarios, where the epidemic gets out of control and restrictions cannot be lifted for the greater part of the year, are not included here.

For **Austria** total economic losses are expected to reach EUR 31 bn overall in 2020 due to COVID-19 which corresponds to a decline of 8.7 percent in domestic economic output (in real terms) vis-à-vis the original benchmark forecast for the current year. This implies a decline in Austrian gross value added of 7.6 percent as compared to the previous year. More than forty percent of the overall damage are due to occur only during the second half of 2020 resulting from asynchronies in the recovery process (in both domestic and foreign trade) as well as from continued losses beyond the period of the relaunch.

The positive scenario for **Germany** shows a decrease of economic activities by 5 percent due to the coronavirus crisis. This is similar to the severe crisis in 2009, although service industries are more severely affected than a decade ago. The negative scenario for results in a drop of 10 percent – with -18 percent in the manufacturing sector.

For **Italy**, the positive scenario is based on a full reopening of the economy in July; in this case, GDP growth will drop to -8,25 percent this year. In a negative scenario of full reopening only at the end of August, GDP is expected to decrease by 12 percent.

For **France**, the coronavirus crises would induce a 9.7% drop in GDP in 2020 - and therefore an 8.5% decline as compared to 2019 GDP level - under the assumption of a 2-month lockdown and a gradual recovery as of mid-May 2020.

For **Finland**, the baseline scenario (dated on 16th April) shows a GDP decrease of 8% in 2020. The positive scenario is -5% and the negative scenario -10%.

The **UK** economy will also suffer a sharp slowdown in the first and second quarter of 2020 because of the lockdown. GDP is expected to shrink by around 5 per cent in the first quarter and by somewhere between 15-25 per cent in the second quarter. A large bounce back is anticipated in the third quarter of 2020 provided restrictions to activity that have been imposed by governments in the UK and elsewhere are lifted and also in response to the stimulus injected by fiscal and monetary authorities.

Table: Economic Effects of the Coronavirus Crisis

Loss compared to baseline as percent of GDP, 2020

	Austria (Economica)	France (Rexecode)	Germany (IW)	Italy (CSC)	Finland (ETLA)
positive scenario	-6.7%	-9.7%	-5 %	-8,25%	-5%
negative scenario	-8.7%		-10 %	-12%	-10%

Source: Bardt/Hüther, 2020; Economica, 2020, Own Calculations

This pan-European medical and economic crisis cannot be mastered on national level only. It calls for European economic partnership, which includes (besides financial topics), production and allocation of medical goods and services and restarting the manufacturing sector in a coordinated fashion. Europe needs a common rescue programme to fight the disease and it needs a common recovery programme for restarting economic activities and future growth.

2 A European Rescue Programme

In the first phase, European cooperation is necessary to bring down infection rates and to provide as much medical equipment and services as possible:

- increase the supply of medical equipment like masks, protective gear, ventilators, medical oxygen and test kits. Ramp up the production of such equipment in Europe through public procurement and ensure the distribution of these goods according to national requirements. On international markets, Europe can use its joint market power to import the necessary goods.
- use the existing resources best. While every government has of course a responsibility towards its own citizens, spare resources like analytic capacities, intensive care beds should be offered Europe-wide. This would especially help the patients of the most severely affected regions.
- large scale testing to control the virus and to reduce the risk of further large-scale outbreaks. Testing standards and infrastructure must be coordinated Europe-wide, as a lack of tests in

one country endangers not only the medical situation in other countries, but also risks that borders might be closed, and economic exchange might be damaged.

- exchange of information and provision of data among Member States connecting national authorities responsible for eHealth designated by the Member States to enable authorities to make evidence-based, reliable and trust-worthy decisions
- a coordinated action towards building a massive strategic reserve of tests and masks in case of a second wave or another pandemic in the future. An authority should be put in place at the European level, which would oversee implementing, coordinating, and checking the constitution of such a stock. The Member States should agree on guidelines ruling the allocation of this reserve between countries. Higher security of supply of medical equipment can be organised by increasing stocks or developing strategic approaches to increase domestic production quickly in case of a future crisis.
- regarding the economic support, the comprehensive efforts by the ECB and the Commission, including loosening the rules concerning state aid and the provision in the context of the SURE programme for short time work are very welcome
- joint activities to provide countries and companies with much needed liquidity need to continue

3 A European Recovery Programme

In the second phase, Europe should work together to foster economic development and to come back to sustainable growth quickly by setting out a **clear roadmap of actions, their timing and design:**

- The EU should establish joint criteria as to the conditions for moving from one phase of the fight against the virus and its implications to the next, i.e. the decrease of infection rates, the availability of Intensive Care Units and other care infrastructure, the possibilities for tracking and testing of people.
- After having overcome the most severe phase of the medical crisis, Europe needs a large-scale and timely initiative to foster growth through public and private investments, focusing on health, technology, and the green economy. The Green Deal should play a key role for the design of the economic recovery programme. The 1,5 trillion euro plan foreseen by the Commission is appropriate to address the challenge faced by European economies. However, to avoid asymmetric rebounds within the EU after the emergency, the European recovery plan has to be implemented as soon as possible, i.e. by September 2020.
- Preserving the single market has to be a core criterion for any European measure in the context of the recovery programme. Europe must secure open borders for goods, services and labour. These fundamental freedoms are being curtailed by pandemic-related border controls. But open borders within the EU internal market are crucial to restarting the cross-

European value chains our industries are based on. This is true for intermediate goods (e.g. for the automotive industry), and for personnel and sub-contracting companies (e.g. in the construction industry or agriculture). Immunity passports or fast testing can help.

- Europe should develop joint standards or criteria for public assistance to companies that suffer from the coronavirus crisis. EU aid control must make the necessary national support possible without allowing unlimited subsidies to companies that have not been competitive even before the crisis. European competition law needs to be temporarily adapted to allow some degree of concentration at the European level and to preserve strategic interests. Close attention must be paid for signs of aggressive takeover initiatives from outside the EU.
- A European approach is necessary to synchronise the restart of manufacturing. If some countries are lagging behind significantly, value chains would remain interrupted, recovery would be slowed down, and the most affected countries would face long term economic disadvantages. A Europe-wide signal to start with first steps out of the crisis mode helps to stabilize expectations and to focus on economic recovery.
- After the crisis, the need for competitiveness of European economies will not have gone away. Thus, the EU and its member states should ensure that recovery funds are used smartly and sustainably in a way that future-proofs our economies. Decisions on criteria for sustainable funding and making it available to the market will have to be considered when designing any recovery plan.

4 Avoid uncoordinated national actions

Even though full synchronization of efforts to end the lockdown and re-start the economies will not be possible due to the different impacts of the virus in the different EU member states, it will be crucial for a European exit strategy to be implemented jointly by all the member states under a common guidance offered by the EU (e.g. in setting joint criteria for phasing out lockdown measures, access to funds and joint procurement actions).

As supply chains are closely knit between EU member states, a common strategy for exiting the crisis will be of paramount importance to re-establish normal economic relationships among European firms and maintain the international competitiveness of the European industry. Unilateral national actions such as intra-EU border closures should be avoided as they increase uncertainty, lower business confidence, and raise costs.

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